MINUTES
MICHIGAN STATE TRANSPORTATION COMMISSION WORKSHOP
May 26, 2005
Lansing, Michigan

Meeting noticed in accordance with Open Meetings Act, Public Act 267 of 1976.

Present:	Ted Wahby, Chairman Linda Miller Atkinson, Vice Chairwoman Robert Bender, Commissioner Maureen Miller Brosnan, Commissioner Vincent J. Brennan, Commissioner James R. Rosendall, Commissioner
Also Present:	Gloria J. Jeff, Director Leon Hank, Chief Administrative Officer Jackie Shinn, Chief of Staff/Office of Eco. Development Administrator John Polasek, Bureau Director, Highway Development Frank E. Kelley, Commission Advisor Marneta Griffin, Executive Assistant Denise Jackson, Administrator, Transportation Statewide Planning Jerry Jones, Commission Auditor Ray Howd, First Assistant Attorney General, Transportation Division Myron Frierson, Bureau Director, Finance and Administration Susan Mortel, Bureau Director, Transportation Planning

A list of those people who attended the workshop is attached to the official minutes.

Chairman Wahby called the workshop to order at 10:45 a.m. in the Bureau of Aeronautics Auditorium in Lansing, Michigan.

Ed Timpf and Myron Frierson gave a PowerPoint presentation on Finance and Bonding.

Revenue Sources and Uses
Four major appropriated funds consist of Michigan Transportation Fund (MTF--funnel for the vast majority of state funds – goes to STF and to locals), State Trunkline Fund (STF--where the State share of resources are appropriated), Comprehensive Transportation Fund (CTF--gets share of the MTF), and Aeronautics Fund (stand alone fund). Total revenue for FY2005 for the entire department is $3,458.8 million with fuel taxes being the largest source at 33%, FHWA at 31%, and registration taxes at 26%. Total appropriated expenditures for FY2005 is $3,498.4 million with road and bridge construction being the largest share at 68%, maintenance at 7.25%, MDOT Operations at 7.2%, airport improvement at 7.8%, bus transit at 5%, and debt service at 4.8%. MDOT's major categories of programs are road and bridge (71%), transit (15%), and aviation (13%).

Commissioner Brennan asked what the maintenance portion involved.

Mr. Timpf answered that it involves snow and ice removal, shoulder repair, crack repair, etc.

State revenue sources (excluding federal and local revenue) are comprised of fuel taxes (the largest share at 53%) registration taxes at 42%, sales tax at 2.7% - not constitutionally dedicated to Transportation. Aeronautics gets a $6 million earmark of parking tax – sunsets when ASAP debt service is paid.

Mr. Howd asked if it were only from the CTF that the locals get their allocation or is it a combination.

Director Jeff stated that CTF is exclusively for non-highway purposes.

Since the fuel taxes are a per gallon tax, while registration is an ad-valorum tax that increases with the price of vehicles, over time we'll see the mix change.

Commissioner Brennan asked where Michigan ranked in terms of the gas tax.

Mr. Timpf answered that Michigan is the 20th of the 51 entities that have a gas tax (31 states have a higher gas tax than Michigan—19 cents per gallon). In terms of diesel tax, Michigan ranks 6th out of the 51 (45 states have a higher diesel tax than Michigan—15 cents per gallon). Cost of the gas and profit is 74% of the price. When gas prices increase by 53 cents on the weekends, that doesn't create a windfall for MTF. MTF still only gets 19 cents per gallon. The General Fund receives the bulk of the 6% sales and the increase in revenue. People believe that the CTF gets a wind fall when the price of fuel increase – not true; consumption and auto sales declines as price increases. Treasury estimates that in FY 05 CTF we will get $1.8 million less than projected or 12% less than FY04.

Revenue Sources – STF: STF is where the money comes from to maintain the roads and bridges (Federal 49.5%; State 43.3%; miscellaneous consists of permit fees and interest which go directly to the STF, and includes $10million MTF to CTF to STF). Expenditures – STF: The bulk of STF (62%) is spent on road and bridge construction, 17% on maintenance, and 10% on operations. Comparison of Budget Mix – STF: Total budget for MDOT operations is decreasing, debt service is slightly increased, maintenance has slightly declined but starting back up, and road and bridge has increased.

Revenue Sources – CTF: MTF–state 58%, and 20% federal and sales tax. Expenditures – CTF: 59% to bus transit, 20% to public transportation (Transportation to Work Program, bus capital, van pooling, specialized services for the handicapped/elderly), 10% to debt service, 8% to intercity pass and freight (rail, marine, intercity bus equipment). Comparison of Budget Mix – CTF: Operations has decreased, bus transit has slightly increased, but over all CTF has been extremely stable.

Revenue Sources – Aeronautics: Does not get any money from MTF, STF, or CTF. Money comes from federal (80.5%), local (11.5%), aviation fuel tax (4.1%), airport parking tax (3%), and miscellaneous (0.9%). Expenditures – Aeronautics: airport improvement programs (95%), aeronautics (4.13%), debt service (0.84%), transportation planning (0.14%), interdepartment and statutory contracts (0.14%), and information technology 0.05%). Comparison of Budget Mix – Aeronautics: Reducing operations, but the balance is extremely stable.

Developing the finance strategy for MDOT involves the joint effort of finance, planning, and all program areas. The challenge is to have a program level that matches revenue and adapt to changing revenue. An example of this challenge is the new revenue forecast for CTF, which is down $2.2 million. We'll need to balance the program to the available revenue. Because we have dollars appropriated, there are two things needed in order to spend a dollar – an appropriation and cash (revenue). Treasury does it revenue forecasts usually twice a year – just got the May forecast. The department works with Treasury during the Revenue Consensus Estimating Process. We also are working with Washington to get more Dollars Back to meet Michigan's needs. Bonding is a valuable Tool when current revenues fall short of needs. Internally, Finance and Planning meet weekly to discuss project funding, obligating federal aid, and federal aid issues. Executive Management meets monthly to discuss balance of expected revenue to program size, and meets periodically to discuss cash flow.

Mr. Timpf asked for questions; none were forthcoming.

Mr. Frierson took over the presentation.

Debt Financing

Bonds and notes have been an effective financing tool used since 1919, and have actively managed to reduce overall debt service costs. The benefits reaped from this include earlier project completion, improved system condition, and economic benefits. There are three major types of debt: STF (Long Term Bonds), CTF (Long Term Bonds--including Aeronautics Bonds), and GARVEE (Short Term Notes—linked to federal funds). MDOT has a reasonable amount of debt, a good debt management strategy, and an experienced team. The financial strategy team is made up of outside consultants, other state agencies, as well as members from MDOT. STF debt service for FY 2005 of $136.6 million represents 9.1% of the STL budget of $1.5 billion. CTF debt service for FY 2005 debt services of $29.4 millions represents 9.8% of the CTF's $299.2 million budget.

State Constitution – Article IX, Section 9 restricts motor fuel and vehicle registration revenues for transportation purposes. It states that debt can be secured by constitutional restricted transportation revenues, and that transportation notes and bonds are not general obligations of the state of Michigan.

Article V, Section 28 established the State Transportation Commission (STC). Its purpose was to establish policy for the department of transportation. Section 18b of Act 51 authorizes the STC to borrow money and issue notes or bonds for transportation related capital costs. The legislature must be advised of any bond issue or changes in project list. Act 51 requires a 30-day notice period before the bonds can be issued or project list amended. Legislative approval is not required.

The STC debt policy (adopted in 1999) states that the Department shall develop bonding guidelines to standardize and rationalize the issuance of long-term debt for the purpose of building transportation facilities. The ability to issue such long-term debt is authorized under Act 51 of 1951 as amended, and Section 9, Article IX of the Michigan Constitution. Under Act 51 of 1951 the Transportation Commission must review for approval all proposals to issue long-term debt for capital financed transportation projects. The department shall establish general guidelines that, in addition to other information available, consider long-term revenue projections, projected inflation, and the economic needs of the State for the State Transportation Commission to use in planning and reviewing long-term debt proposals for approval.

The capital financing guidelines state that bonding will be used only for capital items, not for routine operations. The minimum debt coverage ratio is 4 in contrast to Act 51 which allows coverage ratio of 2. Minimum reserves are maintained to ensure payment of debt service. Refunding issues may achieve at least a 3% present value savings. Bond resolutions must be approved by four affirmative votes. The department should work with Treasury to ensure credit ratings are maintained at the highest possible level.

MDOT ratings are AA-, Aa3, and AA from the top for all three rating agencies (Fitch, Moody's, and S&P), which are in the second tier of their rating structures. Of the 16 states that issue transportation revenue supported debt, only four states have a higher S&P credit rating than MDOT (six states using Moody's rating). The department is considered a good credit or risk.
State of Michigan ratings are Moody's: Aa2, Fitch: AA, S&P: AA. To obtain better interest rates most issues are insured. Insurance cost approximate .15%

MDOT currently has the highest debt coverage ratio in the 16 states that issues transportation debt supported by dedicated transportation revenue. In all states that issue debt to fund transportation projects (including General obligation Debt) MDOT ranks 22nd lowest (of 43) in overall outstanding debt in 2003.

Mr. Kelley asked if there are some states that do not allow bonding.

Mr. Frierson answered yes.

Director Jeff further interjected that there are states that allow bonding but only for the highway side, but not for the transit side, which is why the information presented is limited to a highway comparison. On a per capita basis MDOT ranks eighth lowest (of 43) in outstanding transportation debt in 2003.

MDOT refunded $231,775,000 of STF bonds for a present value debt service savings of $12,479,396.46 (5.38%), issuing $223,020,000 of refunding bonds. MDOT refunded $65,100,000 of CTF bonds for a present value debt service savings of $2,376,202.34 (3.65%) issuing $62,180,000 of refunding bonds.

Upcoming Issues
Refinancing GARVEE notes, $400 million Jobs Today Program bond issue, $260 million Five Year Program (possibly issued in 2006), and a $36 million Airport Improvement Program (will be issued in 2006 or 2007; linked to the airport parking tax mentioned above).

Chairman Wahby asked if the $200 million was for new projects.

Mr. Frierson answered that the $200 million was for the overall Five Year Program. Whatever is in production will use these monies—in part for the new projects, but also for the preservation of the system.

Chairman Wahby asked if the $260 million was for the preservation.

Mr. Frierson answered yes.

Director Jeff interjected that Preserve First if part of the Five Year Program. When the cash is needed is when you buy the bonds. If you do the projects before that, then you do a different set of projects, but they are all part of the overall program.

Mr. Kelley asked if these upcoming issues meant this current year.

Mr. Frierson answered no. The $400 million is based upon the projects selected for that program. This list is still being developed. The $260 will possibly be issued in 2006, and the $36 million will be issued in 2006 or 2007 (authority was given by the Aeronautics Commission to bond up to $60 million in a five year window--$24 million has been bonded previously).

Mr. Howd asked if any priority would be given to the deferred projects.

Director Jeff answered that they are deferred until three conditions are met: 1) the 2007 goal is met with respect to 95% freeways/85% non-freeways being in good condition; 2) sustainability of that goal, and; 3) that there is additional revenue (considering reauthorization). The Department has sat down with local units of government to develop the criteria that will be used in a model to deal with the priorities of not only the deferred projects, but of other projects as well.

Mr. Howd asked the same question but in relation to the deferred projects where the property has already been acquired.

Director Jeff stated that they are still in that mix.

The GARVEE Program has been a very affective financing tool. That program bond issue was $600 million ($200 million issued in 2001, $400 million issued in 2002), and was to accelerate our program, which was accomplished. Part of the structuring of the note, a variable interest rate note that adjusts weekly, was to have the principal payments in the later years in anticipation of increased federal and state revenue. We have averaged 1.3% interest on these notes. Currently, because of the spike in interest rates, we are at about 2.9%. For budgeting purposes we use 3% or 4% because it's a variable and we want to make sure we are covered. Any monies not used for debt service is automatically re-appropriated for the road program.

Some debt management options include refinance short term notes to level debt service payments, use new federal aid (reauthorization) to pay off notes, refinance short term notes to new variable rate short term notes, pay off notes and issue new long term bonds to support new projects, refinance short term notes to variable long term bonds.

Summary:
The challenge is to match estimated revenue to anticipated needs (the department has a history of meeting this challenge, has an experienced team to act, and we have financially constrained programs), the challenge to acquire more revenue for transportation (ongoing efforts in

Washington), the challenge to manage debt financing (debt financing manage in accordance with oversight controls, debt financing in line with other states).

Chairman Wahby asked if anyone had questions for Mr. Timpf or Mr. Frierson.

Commissioner Rosendall, considering the $24 million of aeronautics funds for airport improvements, told of a situation concerning the airport in the Village of Sparta. There is an expansion project that they have been trying to get money for and was finally, after years, able to through a "realignment of the runway". In the report it is stated that there are 100 flights per day coming in and out of this airport, and being that he owns property on the southwest corner of the airport, differs with this number. He is being approached regarding cutting the tops off all timber on his land for this realignment. It is his understanding that the realignment is so that money would not have to be put in with the program to get it (the realignment) done. Commissioner Rosendall asked how this was possible.

Director Jeff stated that this would have been an action taken directly by the Aeronautics Commission and would not have come before the Transportation Commission.

Commissioner Rosendall asked if any of the $24 million funding goes for the situation he described.

Director Jeff answered that there are a variety of funding sources used. Some of it is bonding; some is the eligible federal funds. If it qualifies under the federal programs, they may well have been able to utilize federal funds exclusively with some small portion of local match.

Commissioner Bender explained that each of the projects within Aeronautics are prioritized utilizing a lot of requirements. The Aeronautics Commission acts based upon those priorities.

Director Jeff offered to arrange a meeting between Commissioner Rosendall and Mr. Abent; Commissioner Rosendall agreed.

No other questions were forthcoming.

ADJOURNMENT

There being no further business to come before the Commission, the Chairman declared the workshop adjourned at 11:45 a.m.

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Frank E. Kelley
Commission Advisor